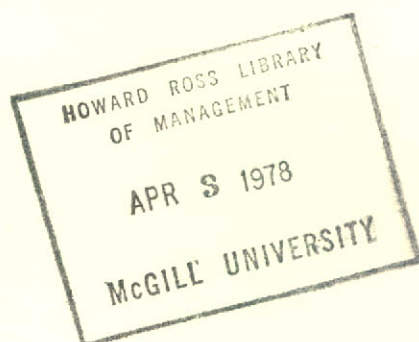


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HARVEY WOODS LIMITED ANNUAL REPORT 1977





EARNINGS Your Directors submit herewith the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1977. Net income for the year was \$780,000, which compares with \$675,000 for 1976, after provision for depreciation of \$270,000 in 1977 and \$260,000 in 1976. It should be noted that taxes on income for the year ended December 31, 1977, have been reduced by \$85,000 as a result of the 3% allowance on opening inventory.

1977 OPERATIONS The down trend, resulting from weakness in retail sales reported after the first six months operations, was reversed. The much improved year-end position can be attributed to our ability to supply the demand for our products during the fourth quarter, a reduction of inventory levels, and the passing on of some cost increases through increased selling prices. Income per share amount to 29¢. (1976 — 25¢).

1978 PROSPECTS Department store sales are statistically monitored by the Government of Canada. The sale of your Company's products relates directly to this indicator of consumer spending. The most recent published figures of these sales compared with a year ago are up 7.6%. It is believed that this upward trend will hold and that both Harvey Woods and Jockey Divisions will participate in this growth. At this date, our bookings and shipments position is modestly ahead of year ago levels.

There are two important factors that can influence your Company's future.

- (1) Canada's ability to reach favourable bilateral agreements with low cost countries - it is expected that these agreements, if concluded, will be made before the end of 1978 when the import restraint program expires.
- (2) The Tokyo Round of the GATT free trade negotiations is presently under way in Geneva. The Federal Government has been informed of the gravity of failure to exempt all textiles from these negotiations. Only 40% of Canada's textile market is domestically manufactured. The ratio of imports to domestic manufacture must be reversed.

Though the 1977 Capital Budget was \$500,000, capital expenditures totalled \$355,000 with \$139,000 committed but not spent at year end. Updating our manufacturing facilities will require the spending in 1978 of this remaining

\$139,000, in addition to a further allocation of \$500,000. Production efficiency and cost improvement will determine the way in which such capital spending is distributed over the capital budget.

LONG TERM DEBT Particulars of the long term debt are given in the notes to the Consolidated Financial Statements.

WORKING CAPITAL Working Capital increased \$594,000 in the year and at December 31, 1977 stood at \$4,681,000. Details of the source and application of funds are shown in the Consolidated Statement of Changes in Financial Position.

SUBSIDIARIES

THOMSON RESEARCH ASSOCIATES LIMITED The expansion of the materials testing facilities and the extension of the Company's agency chemicals business resulted in increased revenue and profit. A new marketing approach to the Steri-Septic germicide range under the "Dura-Fresh" trademark is under way and this logo will appear initially on all Harvey Woods and Jockey underwear and hosiery.

KROY UNSHRINKABLE WOOLS LIMITED We are pleased to announce that the International Wool Secretariat (I.W.S.) has endorsed the Kroy Machine and the Kroy Process. By agreement, the I.W.S. will assist in the promotion of the Kroy Process, the sale of Kroy Machines, and in continuing research and development in this field. A machine has been installed in the I.W.S. pilot plant in Ilkley, England, where it is being used to demonstrate the benefits of the process to potential licensees from several countries. Some licensee negotiations are in progress and, although it is too early to tell when contracts will be completed, we expect some royalty income late in 1978.

GENERAL We express our appreciation to all Harvey Woods and Subsidiary Companies' employees for their support and cooperation. It is only through them and their individual contribution that the Company's continued progress can be realized.

On Behalf of the Board of Directors
J. D. Woods, Chairman.
R. W. Meeke, President.

March 9, 1978
Toronto, Ontario

HARVEY WOODS LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET (as at December 31)

(in thousands of dollars)

ASSETS	1977	1976
Current:		
Cash	\$ 5	\$ 13
Accounts receivable	2,903	2,564
Inventories (note 2)	6,646	6,628
Prepaid expenses	105	257
Total current assets	9,659	9,462
Fixed:		
Land	40	40
Buildings	1,319	1,255
Equipment	3,771	3,743
	5,130	5,038
Less accumulated depreciation	3,551	3,499
Total fixed assets	1,579	1,539
Total	\$11,238	\$11,001

On behalf of the Board

Roland W. Meeke, Director — John A. Young, Director

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of Harvey Woods Limited.

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon & Co.
Chartered Accountants

London, Canada
February 20, 1978

(in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	1977	1976
Current:		
Due to bankers - demand loan (note 3)	\$ 2,512	\$ 3,064
Accounts payable and accrued charges	1,917	1,897
Taxes payable	351	220
Portion of long term debt due within one year	198	194
Total current liabilities	4,978	5,375
Long term debt (note 4)	795	993
Deferred taxes	111	59
Minority shareholders' interest	9	9
Shareholders' equity:		
Capital		
Authorized:		
3,500,000 common shares without par value		
Issued and fully paid:		
2,677,072 common	1,938	1,938
Retained earnings	3,407	2,627
	5,345	4,565
	\$11,238	\$11,001

CONSOLIDATED STATEMENT OF INCOME (year ended December 31)

(in thousands of dollars)

	1977	1976
Sales	\$20,748	\$17,291
Expenses		
Cost of sales	14,651	11,848
Marketing, general administration and shipping expenses	4,045	3,648
Depreciation	270	260
Interest - long term debt	102	130
- other	378	284
	19,446	16,170
Operating income	1,302	1,121
Minority interest in income of subsidiary company	4	1
Income before income taxes	1,298	1,120
Income taxes - current (note 5)	466	387
- deferred	52	58
	518	445
Net income	\$ 780	\$ 675
Income per share	\$.29	\$.25

(See accompanying notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (year ended December 31)

(in thousands of dollars)

	1977	1976
Balance, beginning of year	\$2,627	\$1,952
Net income	780	675
Balance, end of year	\$3,407	\$2,627

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (year ended December 31) (in thousands of dollars)

	1977	1976
Source of working capital:		
Operations —		
Net income	\$ 780	\$ 675
Depreciation	270	260
Minority interest in earnings of subsidiary	4	1
Provision for deferred income taxes	52	58
	1,106	994
Sale of fixed assets	46	38
	1,152	1,032
Application of working capital:		
Reduction in long term debt	198	193
Purchase of fixed assets	355	537
Dividends paid to minority shareholders of subsidiary	5	5
	558	735
Increase in working capital	594	297
Working capital, beginning of year	4,087	3,790
Working capital, end of year	\$4,681	\$4,087

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**1. Summary of significant accounting policies****(a) Principles of consolidation**

The consolidated financial statements include the accounts of the company and its subsidiaries, Thomson Research Associates Limited, Kroy Unshrinkable Wools Limited, Kroy Inc. and York Knitting Mills (1966) Limited. All material intercompany accounts and transactions have been eliminated.

(b) Inventories

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual costs on a first-in, first-out basis. Market value is defined as follows:

Raw materials — replacement cost

Work in process and finished goods — net realizable value

(c) Fixed assets

Fixed assets are stated at historical cost. Depreciation is provided on a diminishing balance basis at rates which amortize the cost over their estimated useful life, as follows:

Buildings — 5%

Equipment — 20%

(d) Deferred income taxes

Income taxes charged to income represent both the portion currently payable and the portion which is deferred due to claiming capital cost allowance for tax purposes in amounts which exceed depreciation recorded in the accounts. The resultant deferrals of income tax are reflected on the balance sheet as deferred income taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

2. Inventories

	1977	1976
Finished goods	\$3,883,000	\$3,933,000
Work in process	1,455,000	1,579,000
Raw materials and supplies	1,308,000	1,116,000
	\$6,646,000	\$6,628,000

3. Bank indebtedness

As at December 31, 1977, bank indebtedness amounted to \$2,511,600 by way of a demand loan and \$631,945 in term loans as described in note 4. The company has pledged its accounts receivable and inventories as security and has also issued demand debentures totalling \$4,500,000 secured by fixed and floating charges ranking subsequent to the security given under mortgages described in note 4.

Under the terms of the security, the company cannot pay dividends without the prior approval of the debenture holder. In any event, any such dividend would be restricted under the Anti-Inflation Act to an amount not exceeding 11¢ per share for the year ending October 13, 1978.

4. Long term debt

	1977	1976
Bank term loans		
(i) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly principal instalments of \$7,060, to April, 1982, and insured as to the repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB).	\$ 367,120	\$ 451,840
(ii) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly instalments of \$1,605, to May, 1983, insured by GAAB as to repayment to the extent of 90%, and secured by a chattel mortgage on certain equipment.	104,325	123,585
(iii) bearing interest at 10%, repayable after the other term loans have been fully repaid.	160,500	160,500
	631,945	735,925

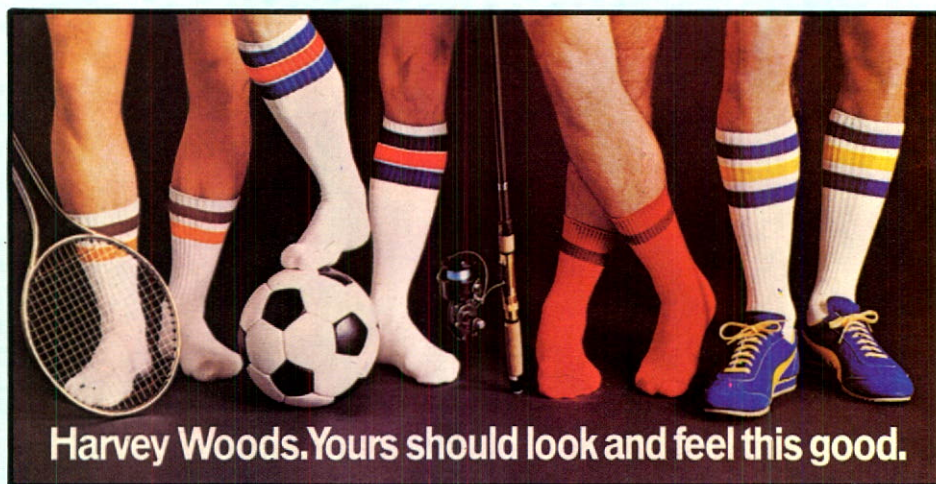
Other

(i) 8½% first mortgage bonds, issued to the company's bankers, secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets, repayable by monthly instalments of \$2,900 plus interest.	122,700	157,500
(ii) 8½% second mortgage, to the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets, repayable by monthly blended payments of principal and interest of approximately \$6,400, maturing July, 1981.	238,280	293,040
	992,925	1,186,465
Less portion due within one year included in current liabilities	198,294	193,541
	\$ 794,631	\$ 992,924

Principal repayments in the years 1978 to 1982 are \$198,294, \$203,460, \$209,075, \$166,070 and \$103,980 respectively.



Harvey Woods 420. Cotton comfort every body needs.



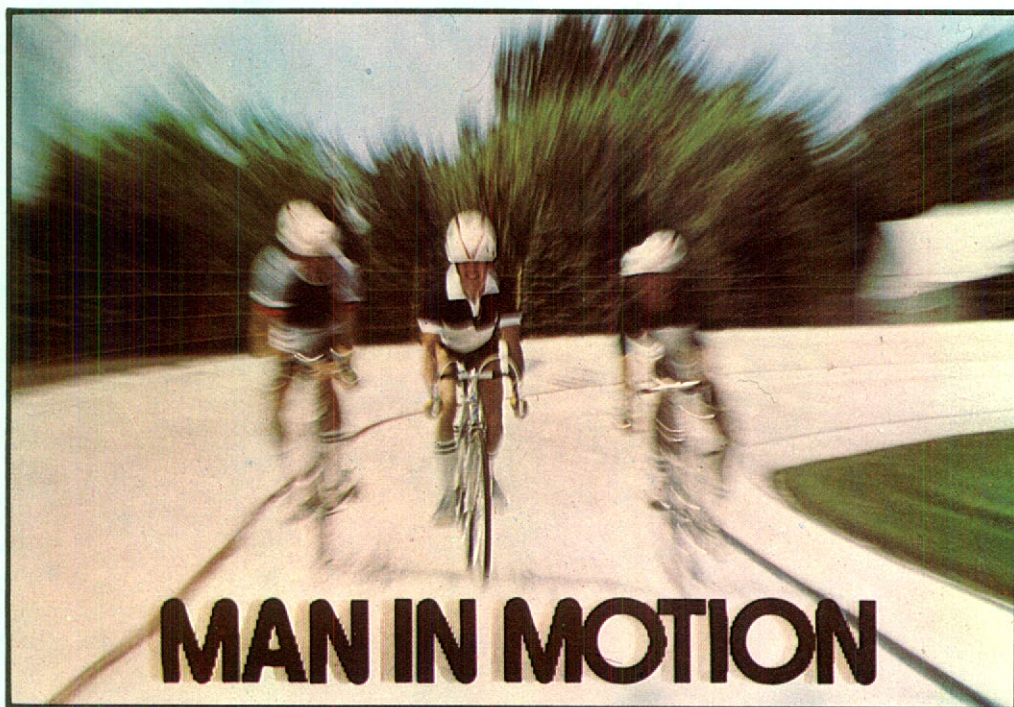
Harvey Woods. Yours should look and feel this good.

The **Harvey Woods** brand of underwear and hosiery will be supported throughout 1978 by strong consumer advertising. Distinctive outdoor billboards are being used in major markets across Canada to highlight the quality, comfort, and style inherent in every Harvey Woods garment. In addition to this continued strengthening of the brand's image amongst consumers, the campaign demonstrates to retailers Harvey Woods commitment to national advertising to increase sales.

**HARVEY
WOODS**



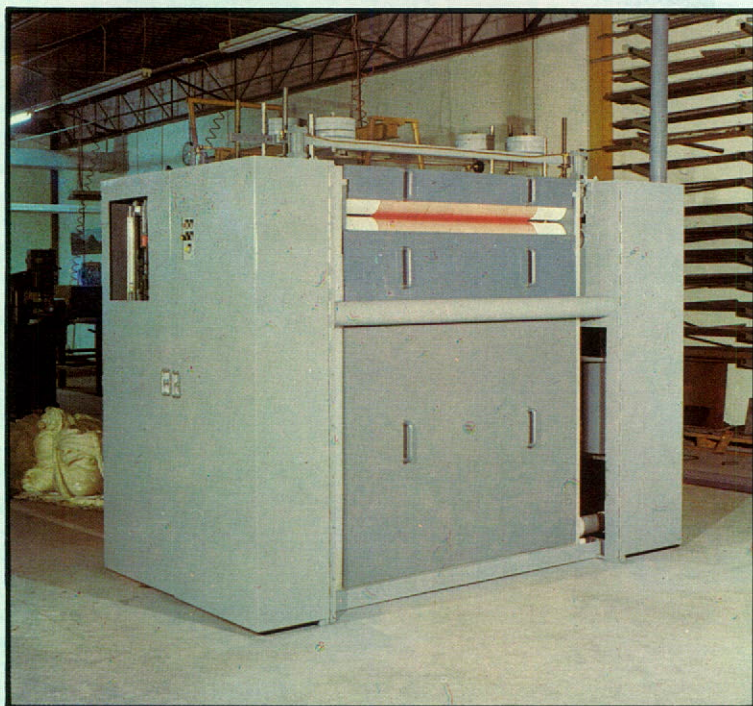
HARVEY WOODS LIMITED
WOODSTOCK, ONTARIO



Significantly increased promotional activity will strengthen consumer awareness of Jockey brand underwear in 1978. Various in-store and other promotional vehicles have been selected to achieve this goal and to further develop our strong presence in the marketplace.

MAN IN MOTION will be the theme for active apparel in the Jockey range of sportswear, shorts and fun tops.

 **JOCKEY®**



Among the features of the extremely versatile **Kroy** Machine, when used in conjunction with the **Kroy** process, is the reduction in the use of costly chemicals and the capability of shrink-proofing wool tops at production rates up to 50% faster than competitive processes. The **Kroy** Machine is a self-contained unit with all the controls, chemicals and environmental mechanisms easily accessible.

kroy*



Dura-Fresh is a safe and durable additive to the treating of textiles, footwear, plastics, paints and other applications. The treatment effectively resists the growth of odour causing bacteria, moulds, and fungi. The new, modern and colourful trademark will replace the former Steri-Septic identification.

THOMSON RESEARCH ASSOCIATES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

5. Income taxes

Taxes on income for the year ended December 31, 1977 have been reduced by \$85,000 as a result of the 3% allowance on opening inventory.

6. Remuneration of directors and senior officers

Aggregate direct remuneration paid by the companies during 1977 to directors and senior officers as defined by Section 125 of The Business Corporations Act amounted to \$347,000 (1976 – \$328,000).

7. Anti-Inflation program

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which will be in force until December 31, 1978. Under this legislation, the company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. It is management's opinion that the company has complied with the intent of the legislation and that no significant liability will arise.

FIVE YEAR FINANCIAL REVIEW (in thousands of dollars)

	1977	1976	1975	1974	1973
Operating results:					
Sales	\$20,748	\$17,291	\$15,563	\$13,280	\$10,986
Income before extraordinary items	780	675	796	401	213
Net income	780	675	1,065	698	343
Financial position:					
Working capital	4,681	4,087	3,790	2,967	2,379
Total assets	11,238	11,001	8,781	8,197	7,579
Long term debt	993	1,187	1,375	1,562	1,414
Shareholders' equity	5,345	4,565	3,890	2,825	2,127
Capital expenditures	355	537	290	464	91
Income per share:					
— before extraordinary items	.29	.25	.30	.15	.08
— after extraordinary items	.29	.25	.40	.26	.13

Footnote:

Income per share figures have been calculated and adjusted on the basis of common shares now issued according to the arrangement effected in 1975 for changes in the capital structure.

Directors

W. D. Bean
G. D. Birks
N. H. Cruickshank
R. W. Meeke
J. W. Walker Q.C.
J. D. Woods
John A. Young

Officers

J. D. Woods
Chairman of the Board
R. W. Meeke
President
John A. Young
Vice President and Secretary-Treasurer

Head Office

18 Vansittart Avenue, Woodstock, Ontario

Sales Executive Offices

Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario
Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario

Transfer Agents

The Royal Trust Company

Auditors

Clarkson, Gordon & Co.

Bankers

The Toronto-Dominion Bank

Counsel

McCarthy & McCarthy

Operating Locations

Toronto: Kroy Unshrinkable Wools Limited
Thomson Research Associates Limited
Woodstock: Hosiery Division Manufacturing
Underwear Division Manufacturing

Branch Sales Offices

Vancouver — Edmonton — Winnipeg — Toronto — Montreal — Quebec

Products

Hosiery — Underwear — Sweaters — Sportswear

Registered Trade Marks

**HARVEY
WOODS**

 **JOCKEY®**

kroy*

DURA  FRESH

 **John Newcombe**



HARVEY WOODS LIMITED
WOODSTOCK, ONTARIO